



Alibaba Group
December Quarter 2021
Results Conference Call
Transcript

Thursday, 24th February 2022

Introduction

Rob Lin

Head of Investor Relations, Alibaba Group

(Original)

Good day everyone and welcome to Alibaba Group's December Quarter 2021 results conference call. With us on the line today are Daniel Zhang, Chairman and CEO; Joe Tsai, Executive Vice Chairman; Maggie Wu, Chief Financial Officer; Toby Xu, Deputy Chief Financial Officer. This call is also being webcast from the IR section of our corporate website. A replay of the call will be available on our website later today.

Now, let me quickly go through the Safe Harbour. Today's discussion may contain forward looking statements. Forward looking statements involve inherent risks and uncertainties that may cause actual results to differ materially from our current expectations. For detailed discussions of the risks and uncertainties, please refer to our latest annual report, Form 20F and other documents filed with the US SEC, or announced on the website of the Hong Kong Stock Exchange. Any forward-looking statements that we make on this call are based on assumptions as of today and we do not undertake any obligation to update these statements, except as required under applicable law.

Please note that certain financial measures that we use on this call, such as adjusted EBITDA, adjusted EBITDA margin, adjusted EBITA, adjusted EBITA margin, non-GAAP net income, non-GAAP diluted earnings per share or ADS and free cash flow are expressed on a non GAAP basis. Our GAAP results and reconciliations of GAAP to non-GAAP measures can be found in our earnings press release. Unless otherwise stated, growth rate of all the stated metrics mentioned during the call refers to year over year growth versus the same quarter last year.

In addition, during today's call, management will give prepared remarks in English. A third-party translator will provide simultaneous Chinese translation on another conference line. Please refer to our press release for details. During the Q&A session, we will take questions in both English and Chinese and a third-party translator will provide consecutive translation. All translations are for convenience purpose only. In the case of any discrepancy, management's statement in the original language will prevail.

With that, I will now turn the call to Daniel.

December Quarter 2021 Highlights

Daniel Zhang

Chairman & CEO, Alibaba Group

(Original)

This quarter, Alibaba Group's businesses continued to make steady progress. We remain focused on building long-term capabilities centered around customer value creation despite the resurgence of COVID, China's macroeconomy slowdown and increasing competition.

In the fourth quarter of 2021, China's GDP grew 4% while total retail sales rose 3%¹ year-over-year. Both decelerated from the previous quarter due to the confluence of COVID, price increase of raw materials, and other factors. At the same time, the overall trend of digitalization across both consumption and industrial sectors became increasingly apparent and accelerated. Large internet companies in China have entered commerce through various ways, and digital consumption formats and user experiences have become increasingly diversified.

Against this backdrop, we believe our most important proposition and biggest opportunities for healthy and sustainable long-term growth are, number one, the ability to continually create new consumption demand and offer innovative consumer experiences and number two, support the industrial digitization of our customers.

As of quarter end, our annual active consumers reached 1.28 billion globally, representing quarterly net adds of 43 million. In China, our AAC grew from 953 million to 979 million during the quarter, while AACs outside of China grew from 285 million to 301 million. We are fully on track to deliver the target of 1 billion China AACs by the end of this fiscal year and Taobao Deals has been the major contributor to our new user acquisition.

With one billion high quality AACs, we believe we have substantially captured all consumers with purchasing power in China. We will focus on shift from new user acquisition to user retention and ARPU growth. Despite the impact from slowing retail sales and intensifying competition on our China commerce business, the next year retention rate of new AACs² acquired in calendar year 2020 was 86% in 2021. This AAC retention rate held steady against our historical pattern, indicating healthy user stickiness on our platforms.

Our overall ARPU, or the average annual spend per AAC, decreased by a low-single-digit percentage year-over-year in 2021 due to increased contribution of new users from less developed areas. But I want to highlight that ARPU of our AACs with over RMB 10,000 annual spend on our platform continued to increase year-over-year.

¹ 3% refers to year-over-year growth of the total retail sales of social consumer goods for December Quarter 2021 in China.

² "Our AACs" was mistakenly stated as "new AACs".

Looking ahead, we aim to further strengthen user engagement and time spent through a greater variety of consumption use case offerings. We want to enhance our influence on the consumer decision journey, and tailor it to reflect the unique considerations of each product category. We will shift our focus from expanding the total number of AACs in China to driving deeper AAC penetration across product categories. This will ultimately help us capture a more significant consumer wallet share.

Over the past year, we invested heavily in Taobao Deals and Taocaicai. We do not view these two businesses as standalone units, but integral parts of our China commerce business matrix. The unique value contributions of these two new businesses gradually became clear following several quarters of development.

Taobao Deals has been a powerhouse in new user acquisition for China commerce, attracting 280 million AACs with a quarterly net add of 39 million. Paid orders during the quarter grew over 100% year-over-year. Taobao Deals and Taobao app have highly complementary user base, with a higher proportion of price-sensitive consumers on Taobao Deals. There are many ways for us to realize the commercial value of these users. One example is improving supply chain efficiency by connecting manufacturers directly with consumers.

As for Taocaicai, it has been a successful use case extension into the grocery and fresh produce category for price sensitive consumers. More than 50% of Taocaicai's AACs were first time fresh produce buyers on our platforms.

Now that Taobao Deals and Taocaicai have established market presence, we will shift our focus towards quality growth. Through optimising efficiency, we expect to gradually narrow the operating losses in these two businesses in the next few quarters.

In Local consumer services, the combined AACs of our "to home" and "to destination" businesses have approximately 372 million, reflecting a quarterly net add of 17 million. Total order volume grew 22% year-over-year. On the "to home" side, we made meaningful progress in improving unit economics for Ele.me through a city strategy with more disciplined user acquisition spending and improved delivery cost. On the "to destination" side, Amap reached a record high of over 200 million DAUs during the National Day holidays in China while transacting users continued to grow during the quarter. We believe the picture of Amap transforming from a map navigation tool to a lifestyle services platform centered around destinations is becoming more and more clear.

For our International commerce businesses, AACs reached 301 million by December with a quarterly net add of 16 million. Overall order growth continued to maintain healthy momentum at 25% year-over-year, with Lazada and Trendyol growing 52% and 49% respectively. AliExpress was negatively impacted by changes in European Union's VAT exemptions. We believe the future development of international commerce markets will be based on the combination of local supply and cross-border supply. Our long-term focus is a balance of both – to fully leverage China's advantages in cross-border supply while organizing local supply effectively.

Meanwhile, logistics network development is a priority in our globalization strategy, as logistics is the fundamental infrastructure supporting a high-quality consumer experience based on integrated product supply from cross-border and locally. Cainiao has been developing logistics network in Southeast Asia and Europe leveraging the commerce use cases presented by Lazada, AliExpress and Trendyol. We will continue to invest in Cainiao's global logistics network as a cornerstone of our globalization strategy.

Additionally, global coverage and capacity in cloud is another essential piece supporting our globalization strategy. This quarter, AliCloud continued to invest in expanding its international infrastructure. We added two data centers in the Asia Pacific, one in Korea and one in Thailand. AliCloud now provides cloud computing services in 25 regions globally.

Our Cloud revenue grew 20% year-over-year this quarter. We saw very strong growth in demand from financial services and telecom sectors, which partially offset slowing demand from some customers in the internet sector. China's cloud market will be a trillion-RMB opportunity by 2025 and industrial digitalization today is still in the very early stage.

Alibaba Cloud is committed to serving the real economy for the long term and the digitalization of all industries. Recently, we helped the International Olympics Committee migrate 100% of their core systems onto Alibaba Cloud during the Beijing Winter Olympics. This is the first time in the history of the Olympic Games that cloud computing has replaced traditional IT infrastructure to support the planning and operations of the Games. In the past, each Olympic host city would have to build extensive IT infrastructure and dismantle it after the end of the Games. By replacing the physical infrastructure with cloud-based services, hardware costs will be significantly reduced while application development and deployment will be much more efficient.

We see similar opportunities and advantages for digitalization in many industries in the future, such as new energy vehicles, financial services and healthcare. These industries have high potential with massive demand for computing power and digital intelligence. We will leverage Alibaba Cloud's proprietary technology and products to deliver tailored industry solutions.

As China continues to advance towards its carbon peak and neutrality goals, we foresee increasing demand for more reliable and sustainable technology infrastructure as digital transformation deepens across industries. We aim to leverage Alibaba Cloud's product and technology innovations to help our customers find greater energy efficiency. For example, our data centers equipped with liquid-cooling technology achieved industry-leading energy efficiency level with a PUE (Power Usage Effectiveness) of as low as 1.09. Moreover, our facilities can deliver high performance with lower power consumption leveraging our proprietary products and technologies.

During our Investor Day this past December, we announced Alibaba's carbon neutrality pledge. By 2030, we committed to achieving Scope 1, 2 and 3 carbon neutrality for Alibaba Cloud; Scope 1 and 2 carbon neutrality in the operations of Alibaba Group and reducing Scope 3 carbon intensity by half. Additionally, we introduced the concept of "Scope 3+" to facilitate 1.5 gigatons of decarbonization across Alibaba's ecosystem participants by 2035.

Since Q4 last year, China's regulators have issued multiple important statements about the digital economy. They emphasized the need to strengthen China's digital economy, improve its quality and grow its scale. They also promote healthy and sustainable development of the platform economy based on robust platform governance. These principles are highly consistent with Alibaba's own business philosophy and commitment to social responsibility. Looking ahead, we remain focused on healthy and sustainable development by serving our customers, especially SMEs, supporting the digital transformation of industries, serving the real economy, and supporting our communities.

Thank you everyone for your time. Now, I will turn it over to Toby, who will walk you through the details of our financial results.

Financial Highlights

Toby Xu

Deputy CFO, Alibaba Group

(Original)

Thank you Daniel. Good morning and good evening everyone. This quarter, revenue was around RMB242.6 billion, up 10% year-over-year. Our top three revenue contributing segments were China commerce, Cloud, and International commerce, which grew by 7%, 20% and 18% year-over-year respectively.

While our China commerce segment may be impacted by slowing macro and increased competition, our Cloud and International commerce segments maintained solid growth and are expected to become increasingly important growth drivers in the future. These two segments will continue to contribute to a diversification of our revenue base.

Income from operations decreased by RMB42 billion to RMB7 billion, which included a RMB25 billion impairment of goodwill in relation to the Digital media and entertainment segment. Excluding this impact, the income from operations would have been RMB32 billion, a decrease of 34%.

Adjusted EBITA decreased 27% year-over-year to RMB 45 billion. The decrease was primarily due to our increased investments in growth initiatives such as Taobao Deals, Taocaicai, Lazada and Ele.me as well as our increased spending for user growth. Many of these growth initiatives saw strong growth momentum as highlighted by Daniel.

Additionally, we have increased merchant support through incentives to drive merchant adoption of new value-added services as well as strategic reductions in selected service fees to lower merchants' operational expenses in a slowing consumption environment. We believe this near-term spending builds goodwill with our customers and supports sustainable long-term growth for our China commerce businesses.

Now on cost trends for the quarter. Excluding SBC, as percentage of revenue: Cost of revenue ratio increased to 60% during the quarter. The increase was primarily attributable to, first, the higher proportion of our direct sales businesses, such as Sun Art, Tmall Supermarket and Freshippo, and second, strong growth of Taocaicai, Freshippo and Tmall Supermarket that led to an increase in logistics costs as a percentage of revenue.

Sales and marketing ratio increased to 15% during the quarter. The increase was due to higher marketing and promotional spending for user acquisition and engagement for our mobile commerce apps, such as Taobao Deals, Taobao, Lazada and Ele.me.

Ratios for product development and general & administrative expenses were steady year-over-year during the quarter.

Now, let's review net income and cash flow for the quarter. Our December quarter net income declined by RMB58.8 billion to RMB19.2 billion, which was primarily driven by firstly RMB25 billion in goodwill impairment related to our Digital media and entertainment segment, as previously mentioned; and secondly, RMB21.7 billion decrease in interest and investment

income net to RMB18.4 billion, primarily due to lower net gains from fair-value changes of our equity investments.

Our non-GAAP net income declined RMB14.6 billion, primarily due to decrease of RMB16.4 billion in adjusted EBITA.

As of December 2021, we continue to maintain and enjoy a strong net cash position of RMB379 billion, or US\$59.5 billion. Our strong net cash position is supported by healthy cash generation. Net cash flow from operations and free cash flow for the quarter were RMB60.4 billion³ and RMB 71 billion, respectively. The difference of approximately RMB9.4 billion reflected operating CAPEX spending, majority of which is for our Cloud business and logistics fulfilment infrastructure.

We continue to focus on adding value to shareholders through share repurchases. During the quarter, we repurchased approximately 10.1 million of our ADSs for approximately US\$1.4 billion under our share repurchase programme. For the nine months ended December 2021, we repurchased approximately 42.2 million of our ADSs for about US\$7.7 billion, representing 51% of our US\$15 billion share repurchase programme.

Our current share price does not fairly reflect the value of the company. At current price levels, we plan on continuing our share repurchases. At the same time, we will maintain a strong cash position that gives us the financial flexibility for future investments.

Now, to our segment results. As mentioned during our Investor Day, we are providing more granular reporting of our Commerce segment by further subdividing it into four segments including China commerce, International commerce, Local consumer services and Cainiao. Our Cloud, Digital media and entertainment and Innovation initiatives and others segments remain unchanged.

Revenues from our China commerce segment in the quarter increased 7% year-over-year to RMB172 billion. Customer management revenue slightly declined by 1%, primarily due to firstly slowing market conditions and competition in the China e-commerce market that resulted in single-digit physical goods paid GMV growth for Taobao and Tmall.

Then by categories, year-over-year GMV growth in the FMCG and home furnishing categories were faster than overall average. GMV of apparel and accessories and consumer electronics categories grew at a slower pace than overall average.

Additionally, as previously explained, we have increased merchant support through incentives to drive merchant adoption of new value-added services. We have also made strategic reductions in selected service fees to lower merchants' operational expenses in a slowing consumption environment. The increased merchant support resulted in customer management revenue growing slower than GMV growth. We believe a step up in near-term spending builds goodwill with our customers and supports sustainable growth for our China commerce businesses over the long-term.

³ "Free cash flow for the quarter were RMB80.4 billion" was mistakenly stated as "free cash flow for the quarter were RMB60.4 billion".

Direct sales and others revenue grew 21% year-over-year, primarily due to revenue contributed by Sun Art, Freshippo and Tmall Supermarket. Growth deceleration was primarily due to reduced impact of Sun Art consolidation as it was fully lapsed in this quarter.

China commerce adjusted EBITA decreased by RMB14 billion to RMB58 billion. This decrease reflected our increased investments in growth initiatives such as Taobao Deals and Taocaicai as well as our increased spending for user growth and support to merchants.

It's important to know that our investments in Taobao Deals and Taocaicai have not only generated robust transaction growth and built capabilities, but have also been more disciplined with improving unit economics. Taobao Deals paid orders grew over 100% year-over-year. At the same time, it successfully executed several initiatives to optimize logistic costs and improve delivery experience for consumers. Taocaicai's GMV grew 30% quarter-over-quarter. At the same time, its UE per order continued to improve, benefitting from higher regional order density and improving gross margin from enhanced supply chain capabilities.

As Daniel mentioned, Taobao Deals and Taocaicai are strategic to our China commerce segment, contributing to new consumer acquisitions and expansion of product offering. Given their established presence, we will shift our focus towards quality of growth. We would expect Taobao Deals and Taocaicai to gradually narrow operating losses in the next few quarters.

Revenue of International commerce continued to exhibit strong growth of 18%, primarily driven by solid transaction growth by Lazada and Alibaba.com businesses. Order growth of Lazada was up 52%. Transaction value completed in Alibaba.com grew approximately 50%. The slower year-over-year revenue growth compared to last quarter was mainly due to, first, single-digit revenue growth of AliExpress. This was primarily due to a year-over-year decrease in number of orders for AliExpress, as a result of the value-added tax levied on cross-border parcels below €22 in value in Europe, and second, significant depreciation of Turkish lira against RMB that negatively impacted Trendyol's revenue. Constant currency revenue growth for Trendyol was 60% year-over-year during the quarter, supported by robust order growth of 49%.

Adjusted EBITA loss widened by RMB1.5 billion to RMB3 billion, primarily attributable to the increase in Lazada's marketing and promotional spending for user acquisition and engagement, partially offset by the static profit growth of our international wholesale commerce business.

Revenue of Local consumer services businesses generated strong growth of 27%, due to growth in order volume of 22% as well as more efficient use of subsidies that was contra-revenue.

Adjusted EBITA loss increased RMB0.7 billion to around RMB5 billion, primarily due to the increased losses of our "To Destination" businesses, including Amap. Losses of our "To Home" businesses, including Ele.me, slightly increased year-over-year, but narrowed quarter-over-quarter, driven by our disciplined user acquisition spending and reduced delivery cost.

Revenue from Cainiao before inter-segment elimination grew 23% to RMB19.6 billion, which was primarily driven by the growth of fulfilment solutions and value added serviced provided to our China commerce retail businesses as well as the increase in revenue from third-party merchants in our cross-border and international businesses.

During the quarter, 67% of total revenue was generated from external customers. Adjusted EBITA loss improved to a slight loss of RMB92 million, given the economies of scale of its businesses and improving gross margin of its cross-border and international businesses.

Revenue from our Cloud business after inter-segment elimination grew RMB3.3 billion to RMB19.5 billion. The solid 20% year-over-year growth reflected robust growth from financial and telecommunication industries, partially offset by the continuing impact of a top Cloud customer's decision to stop using our overseas cloud services for its international business due to non-product-related requirements and slowing demand from customers in the internet industry, such as online entertainment and education. Excluding the impact of the top customer from the internet industry, Alibaba Cloud's revenue after inter-segment elimination would have grown by 29% year-over-year.

Alibaba Cloud's revenue is becoming more diversified, with revenue contribution from non-internet industries steadily increasing. Revenue from non-internet industries accounted for 52% of its revenue after inter-segment elimination during the quarter.

Adjusted EBITA was RMB134 million primarily due to economies of scale of its profitable core cloud computing businesses, partially offset by increasing investments in DingTalk. DingTalk offers solutions to enterprises to facilitate their digital transformation, enhanced work collaboration and easy access to Alibaba Cloud's big data analytics and AI capabilities. Since integrating DingTalk into our Cloud business in 2021, we have identified new opportunities and growth initiatives for our overall Cloud business, giving us confidence that the increased investments in DingTalk will create long-term value for Alibaba Cloud.

Our Digital media and entertainment revenue during the quarter was RMB8 billion. Losses slightly narrowed year-over-year during the quarter.

Now, let me wrap up with some concluding thoughts. Our China businesses will be focusing on quality growth, adding value to our customers and building capability. In terms of near-term outlook, despite a challenging macro environment and a high comparison base year-over-year, our China commerce GMV growth remains resilient. We expect revenue diversification to continue with Cloud and International commerce segments exhibiting strong growth. Our various growth initiatives such as Taobao Deals and Taocaicai have established sizeable market presence and are delivering tangible results with robust AAC and order growth. We expect these two businesses to narrow losses in the coming quarters. Lastly, we will continue to build cloud and logistics infrastructure in both China and internationally.

Now, let's open the floor for Q&A.

Q&A

Rob Lin:

(Original)

Hi everyone. For today's call, you are welcome to ask questions in Chinese or English. A third-party translator will provide consecutive interpretation for the Q&A session. And our management will address your questions in the language you asked. Please know that the translation is for convenience purposes only. In the case of any discrepancy, our management's statement in the original language will prevail.

Piyush Mubayi (Goldman Sachs):

(Original)

Thank you for the opportunity. Thank you, Daniel, Toby, for the presentation. My one question surrounds the growth rates for the business and particularly the core business, given what past numbers are looking like for the month of January – and I don't want to read too much into that number – and the exit run rate we saw for NBS data for the month of December, I wonder if you could, one, talk us through the exit run rate for the third quarter, for the December quarter, for GMV growth as well as CMR growth rate, and also if you could broadly guide us to what you think the growth rate we could be expecting in the first quarter of calendar 2022? Thank you.

Toby Xu:

(Original)

Okay. And thank you very much for this question. You know, as I explained in my script, in the last quarter, actually, the overall macro condition, if you look at the NBS data, the retail growth rate for December for NBS is only like 3%⁴. And our business, as I explained, also impacted by the macro condition as well as competition, so which gave us a – also like a single-digit growth, that's for the December quarter.

Then for the new 2022, the first quarter, you know, as I explained, currently our growth rate, we still have a relatively resilient growth in our GMV. And, of course, the market condition is also at this stage is quite..., you know, we still don't see a January number, but, you know, we probably will be waiting for the number to out. But at this stage, I think our growth rate is still resilient.

Thomas Chong (Jefferies):

(Translation)

Good evening management and thank you for taking my questions. My main question has to do with your outlook for the performance of different categories in the next few quarters going forward, including FMCG, apparel, and electronics. Can you share with us your forecast for growth rates or growth trends in those different categories?

⁴ Mistakenly stated, 3% refers to year-over-year growth of the total retail sales of social consumer goods for December Quarter 2021 in China.

I'd like to hear from management as to when you think we will see a turnaround in the consumption slowdown? Do you think we will see a pick-up in momentum by the September quarter?

And secondly, I'd like to hear from management please on competition in the livestreaming commerce arena. What will be the impact of this competition and what is Alibaba's strategy? Thank you.

Daniel Zhang:

(Translation)

Thank you. This is Daniel, and I'll be happy to take this question. First of all, when it comes to GMV, either by category or overall, it is our consistent policy not to give guidance. But I can answer your question in overall terms in the following way.

Apart from the macro environment, we can look at e-commerce penetration in different categories. First, looking at the share of different categories within total retail sales, and then looking at the current e-commerce penetration rate in those same categories.

In the apparel and electronics categories, due to the rapid development of e-commerce over the past decade plus, penetration is relatively high – something like 30% or 40%.

However, if you look at FMCG and foods, and especially fresh groceries, these categories are huge in terms of overall market size, because these are non-discretionary purchases. All consumers, all families need food. Yet e-commerce penetration still remains relatively low, and you'll recall that I talked about this in the presentation I gave at Investor Day back in December. We see very good opportunities for driving digital penetration deeper in those categories.

Of course, in order to do that and in order to ensure a good user experience, we need to have highly integrated fulfilment systems and a range of different offerings that cater to different kinds of demand. That's precisely what Alibaba has put in place with a matrix of high-end, mid-tier, and low-tier offerings, spanning both local and national ecommerce. Freshippo and RT-Mart are designed to serve local consumption demand with integrated online and offline operations. Our third-party platform Ele.me is also part of that local commerce offering. In addition, we have Tmall and Tmall Supermarket as well as Taocaicai, which integrate both local and national supply and fulfilment. And in terms of segmentation, our different offerings cater to different tiers of consumers, from the affluent through mid-tier and price-sensitive. So we expect to be able to deepen our penetration in these categories substantially.

On your second question, I would say that over the past few years, livestreaming certainly has become a very important new part of the consumer experience and a new approach to promoting products. Alibaba sees Taobao Live as an integral part of our digital retail commerce platform, working in concert with all the other use cases to better serve consumers. However, different products in different categories are best marketed to consumers in different ways, with different kinds of engagement. So livestreaming is indeed a great format, but it's certainly not the only one. We aim to satisfy consumer demand and deliver a great user experience with diverse engagement formats, within which livestreaming is one part.

Jerry Liu (UBS):**(Translation)**

Thank you for taking my question, management. My question has to do with Taobao Deals and Taocaicai. You mentioned that their losses will likely narrow over the next few quarters. Investors will naturally be interested in the numbers, so I'd like to ask what changes you are seeing in terms of unit economics, and the impact of competition and of government policy. Have there been any key breakthroughs in these businesses that you can share?

Secondly, if UE is improving, will overall losses narrow substantially over the next few quarters? Possibly driven also by order growth? Grateful if you could give us an overall picture as to whether these losses will narrow substantially. Thank you.

Toby Xu:**(Translation)**

Thank you for your question. Well, regarding these two businesses, Taobao Deals and Taocaicai, both were launched in 2021. As Daniel said in his prepared remarks, we see them as two very important businesses within our overall China commerce segment.

The two businesses do play different roles. Taobao Deals has been very important over the past year in terms of driving user acquisition. And with Taocaicai, we've been able to make great progress over the past year in developing capabilities to serve consumers in lower-tier cities, not only with supply chain but also with an integrated fulfilment and logistics network.

In both of these businesses, we are working hard to grow them in terms of scale, while also looking at ways to enhance efficiency. Some efficiency improvements will be driven by growth in scale, while others will be the result of efficiency enhancement efforts. Certainly in Taocaicai, as order density has increased, we're seeing significant improvement in unit economics, and we're also seeing efficiency enhancement in Taobao Deals as well.

In terms of where these businesses are heading in the face of competition going forward, we view them as part of our overall China commerce business. Of course, we do look at our competitors, but more importantly, we look at ourselves. As Daniel said, we're confident that we can further enhance the efficiency of these two businesses going forward, and expect to see their losses narrowing further over the next few quarters.

Alex Yao (JP Morgan):**(Translation)**

Thank you, management. My question has to do with the outlook for China Retail GMV, which of course is related to consumption power in China's overall retail market. How long do you think that this current slump in consumption generally in China will last? Will consumption growth this year will be a V-shaped curve or an L-shaped curve? Or just the first half of a V-shaped curve? And finally, what needs to change to bring about that pickup in consumption? Would it require government stimulus, a relaxation of COVID control policies, or something further? Thank you.

Daniel Zhang:

(Translation)

Thank you for your question. Like you, I too would be keen to know if it's going to be a V-shaped or a U-shaped recovery. Looking at user behaviour data on our platform and also looking at the current macro environment, I would say yes, both of those things you identified --- an easing of COVID restrictions and pro-consumption policy incentives --- certainly would help to stimulate consumption growth.

But macro conditions aside, what I'd like to stress is that the key to driving consumption is the ability to innovate new supply and to create demand. That's true for all participants in the consumer retail market, and is our common responsibility. The recently concluded Olympic Winter Games held in Beijing are a great example. Winter sports became a new consumption theme in China with the advent of the games and the national goal of mobilizing 300 million people to take part in winter sports activities. It's a great illustration of the importance of creating demand. Fundamentally, what's important is being able to create new demand and to create new supply to meet that demand. I think that's the right approach to drive consumption.

Jiong Shao (Barclays):

(Translation)

Thank you, management. In his presentation, Toby touched on Alibaba's share repurchase programme. With 70 billion in cash on your balance sheet, it's possible to create shareholder value. Another way to create shareholder value would be spinning off certain 'hidden assets'.

We heard back in December at Investor Day that Trendyol was in the process of raising funds. We've also more recently seen media reports that Lazada is raising funds. And we know that some competitors are spinning off shares in their subsidiaries to create shareholder value. So I'm wondering if you could tell us about your current thinking in this regard, especially in relation to Alibaba Cloud and Cainiao. Thank you.

Daniel Zhang:

(Translation)

If you look at where Alibaba is today as a business, we're very much being driven by a multi-engine strategy. The group has expanded into multiple different business areas that are mutually complementary, but each with unique user value and a unique user community creating a closed loop. We believe that the market has not placed sufficient value on Alibaba's business in terms of how it's being driven by this multi-engine strategy. The full value of each of these businesses is not being reflected in where we're at today. And this is a big part of the reason why we're pursuing a share buyback strategy.

Many of our existing businesses, such as Cainiao, Local consumer services, including Ele.me, but also Lazada, Trendyol and others, are no longer merely internal business units, but are operating as independent companies. Going forward, we will continue to move in that direction. Businesses that can create a closed loop and function as standalone entities will be operated as independent companies. And we will maintain an open attitude towards the

possibility of bringing in a more diverse investor base, as we have indeed done in the past, to help these companies advance in the market.

In the long-term, we will certainly pursue strategies that are conducive to the creation of long-term shareholder value and customer value. Thank you.

Eddie Leung (Bank of America):

(Translation)

Good evening. I have two questions regarding strategy. The first has to do with the impact of the growth of the 1P model in certain categories. So I'd like to hear some of your thoughts on this. I'd also like to hear about some potential competitive impacts with our merchants.

And then tying into the previous conversation how a number of BUs are likely to become more independent in the future: We are seeing ongoing growth in Alibaba's user base, with many new users being contributed by the newer BUs. So, I'm wondering, as more BUs become more independent over time, how Alibaba can ensure that good synergy will be maintained between them, allowing new users acquired by each to create larger value for the platform as a whole? Thank you.

Daniel Zhang:

(Translation)

Thank you. Those are both great questions. First, regarding the 1P model versus the platform model, Alibaba is agnostic and has no particular preference. To us, it all boils down to how we can best serve the consumer. We adopt the most appropriate model to provide the best consumer experience.

Secondly, and crucially, when it comes to how we engage with merchants, be it in the 1P model or the platform model, it's fundamentally our concern to find ways to help merchants better serve their consumers, not just in terms of helping merchants to sell products to consumers and build their brands, but also in terms of helping them to connect with consumers leveraging consumer data, to engage consumers, and to grow their business.

So the 1P model for us is absolutely not about erecting a wall between merchants and consumers. It's really about helping to get goods to the consumer more efficiently with more flexible pricing but at the same time, maintaining the connection between consumer and merchant, and enabling merchants to engage consumers on an ongoing basis. So, ours is an upgraded 1P model whereby we provide an integrated service that enables consumer engagement.

So what Alibaba is offering to merchants is a highly integrated portfolio of different possibilities, including the 1P model and the original platform model, spanning multiple use cases and multiple scenarios, from hyper-local to nationwide commerce, and supporting both direct sales by brands and also selling through distribution channels. This comprehensive basket of different offerings allows merchants to better engage consumers leveraging these different solutions.

Your second question had to do with how to ensure good user engagement across all the different businesses as they develop. I think that's a great question, and it's one that's very much on our own minds and that we are working to address each and every day. We

fundamentally believe that we must adopt a user-centric perspective in determining how we organize and run our businesses.

In that connection, a priority for us is ensuring that we have clear objectives and target communities for each of our different businesses. Alibaba is closing in on 1 billion AACs in China today. It's very important that we segment them properly and target different segments with customized offerings that provide differentiated value. That means putting in place a comprehensive consumer business matrix that addresses 1 billion consumers in China. And that's precisely what we are working hard on building, each and every day.

James Lee (Mizuho):

(Original)

Thanks for taking my questions. My questions are mainly on cloud. Now, given the slowdown we're seeing in the internet industry, I'm just curious, what is your plan to diversify the revenue base? It seems like that's your business plan, and maybe help us understand which verticals are logical for your business expansion and why? And lastly, you know, along with that line of investment in cloud, what kind of investment do you need to make to expand not only on your vertical exposure and also from a product and sales perspective? Thank you.

Daniel Zhang:

(Original)

Well, actually, after years of effort, we've already built a very diversified customer portfolio in our cloud business. And as we shared in our earnings, this quarter 52% of our Cloud revenue⁵ are from non-Internet customers. I think - this percentage is- if you look at the past few years' track record is going up. Over time, we will continue to diversify the portfolio.

As I shared in my remarks, actually, today, we are still in the early stage of industrial digitalisation in China. So for all the industries, they are - they are going to be a data-driven company, and they need a new generation of tech infra to support this digital transformation. So I think in this regard, we see a huge opportunity in the coming years. This definitely will be a trillion-RMB market.

In terms of the industries, as I said before, we keep close eyes on the new industries, I mean, which will generate massive amount of data and which will consume the computing volume, a high computing power. So, I think - and also need a more data intelligence technology. So I think for those industries, we definitely think it's - it will drive the growth of the cloud business. And also, with the mutual collaboration, it's also very good for the - to build the ecosystem, which is also relevant to your second question.

Our investment strategy for the cloud computing is first to enhance our proprietary technologies. And the second will be to enhance the power of the ecosystem, and to have more strategic partners in the cloud ecosystem.

Alicia Yap (Citigroup):

(Translation)

⁵ It refers to revenue from our Cloud business after inter-segment elimination.

Thank you, management. I have some questions on cloud. We understand that that one Internet company stopped using Alibaba Cloud services overseas around a year ago, from the March quarter last year, and the impact has been ongoing. But do we expect to see international revenue for Cloud reaccelerating, starting from the March quarter this year? And how do you view competition and price trends in the cloud space? Do you think that there are many companies out there that need to get on the cloud, but are perhaps delaying that decision for the time being given the current macroeconomic environment?

And then quickly turning to Cainiao. We saw that growth of Cainiao's business outside of the Alibaba ecosystem was only 15%, which is relatively slow. I'm wondering if you could talk to us about how you see Cainiao's external revenue growing going forward over the next few quarters. Thank you.

Daniel Zhang:

(Translation)

So starting with the first question. Indeed, a large overseas customer has been discontinuing the use of our cloud services over the past several quarters. The impact of that is decreasing quarter by quarter, and we're now entering a new cycle. The key point is that we now have a much more diversified mix of large customers. Today, we have just a very small number of customers that account for more than 2% of revenues. Our highly diversified customer base positions us well for the future.

Regarding the second question, as to the impact of the overall macro environment, I think you have to look at different sectors differently. There's this broad process of industrial digitalisation that's unfolding. Digital transformation is needed by a large number of companies in traditional sectors, but also by other companies in new and emerging sectors. We've talked about sectors like new energy - indeed, new energy vehicles - and healthcare and pharmaceuticals. These are all sectors that require massive amounts of computing power, and that in a certain sense are the next generation of data-driven companies, requiring very powerful data intelligence capabilities. So looking at the future of the cloud market, it's important to understand that it's not just about replacing traditional IT, but more importantly also about meeting those needs for massive computing power and for data intelligence. That's the basis on which we are positioning ourselves for the future and driving sustained growth. And this process in China is just getting started.

Thirdly, on Cainiao, as a result of many years of development, Cainiao itself has also put in place a diversified business matrix. Cainiao has first-mile and last-mile capabilities, including Cainiao Post and Guoguo, providing first- and last-mile delivery services for consumers. It has 2B and supply chain services. And now, with the growth of Taobao Deals, it's supporting the manufacturer-to-consumer, or M2C business model. Overseas, Cainiao has built cross-border parcel and supply chain networks. And its B2B business, especially the export business, is seeing very robust growth. All of that is underpinned by the international cargo network that Cainiao has built up. So, I think Cainiao has huge potential. And as a member of the Alibaba family, we want Cainiao to be well-positioned with an integrated design to serve the different parts of Alibaba's businesses internally, and to service external customers, with ongoing innovation around different business use cases and new logistics services. With this kind of innovation, we can drive incremental growth for Cainiao.

Rob Lin:

(Original)

Okay, thank you everyone. That was the end of our Q&A session. If you have any questions, further questions, please reach out to the IR team and myself, and thank you for your participation.

[END OF TRANSCRIPT]